

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF SOUTH ROCKWOOD	County MONROE
Fiscal Year End 6-30-2006	Opinion Date 10-18-2006	Date Audit Report Submitted to State 11-28-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS		Telephone Number 734-241-7200	
Street Address 1 SOUTH MONROE STREET		City MONROE	State MI
		Zip 48161	
Authorizing CPA Signature 		Printed Name PETER H. CARLTON, CPA	License Number 1101009575

VILLAGE OF SOUTH ROCKWOOD
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2006

VILLAGE OF SOUTH ROCKWOOD

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Independent Auditor's Report

Village Council
Village of South Rockwood
Monroe County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of South Rockwood, Monroe County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of South Rockwood, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of South Rockwood, Monroe County, Michigan as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 43 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Village Council
Village of South Rockwood

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of South Rockwood, Monroe County, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Corley Hebe Wohlgauth & Carlton". The signature is written in a cursive, flowing style.

October 18, 2006

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2006

This section of the Village of South Rockwood's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the Village's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Village's revenues and expenditures by program for the General Fund, Special Revenue Funds, Capital Projects Fund, Internal Service Fund, and Proprietary Funds.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No.34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD &A.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Village of South Rockwood financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the Village as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the Village's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the Village's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, Sewer and Water Funds, and the Equipment Fund. The following summary illustrates how the various parts of this annual report are arranged:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Budgetary Information for Major Funds
(Required Supplemental Information)

Other Supplemental Information

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2006*

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 10-12), which appear first in the Village's financial statements, report information on the Village as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two government-wide statements report the Village's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Village's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the Village's operating results. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the Village.

The government-wide financial statements of the Village are divided into two categories:

Governmental activities – Most of the Village's basic services are included here, such as the police, inspection, planning and zoning, public works, sanitation and recycling, recreation, streets, cemetery and general administration. Property taxes, state-shared revenue and charges for services provide most of the funding.

Business-type activities – The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer and water systems are treated as business-type activities.

Fund Financial Statements

The Village's Fund Financial Statements (pages 13-22) provide detailed information about the most significant or "major" funds - not the Village as a whole. Some funds are required to be established by State law and by bond covenants. However, the Village establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The Village's two types of funds, governmental, and proprietary, use different accounting approaches as described below:

Governmental funds - Many of the Village's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Village and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 15 and 18.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2006

Fund Financial Statements (Concluded)

Proprietary fund – Proprietary Funds are used to account for services provided by the Village where the Village charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The Village maintains two different types of proprietary funds: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer and water services. An internal service fund is used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment rental activity. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the Village as a whole. Table 1 provides a summary of the Village's net assets as of June 30, 2006 and 2005:

Table 1:

Comparative Statement of Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$1,231,907	\$952,042	\$485,965	\$345,230	\$1,717,872	\$1,297,272
Capital assets, net	401,761	409,402	4,934,913	5,012,258	5,336,674	5,421,660
Total Assets	1,633,668	1,361,444	5,420,878	5,357,488	7,054,546	6,718,932
Current and other liabilities	65,565	34,622	137,288	114,681	202,853	149,303
Long-term liabilities	61,855	42,355	1,860,187	1,965,988	1,922,042	2,008,343
Total Liabilities	127,420	76,977	1,997,475	2,080,669	2,124,895	2,157,646
Net Assets						
Invested in capital						
assets, net of related debt	369,349	393,547	2,956,837	2,948,236	3,326,186	3,341,783
Restricted	637,858	524,352	0	0	637,858	524,352
Unrestricted	499,041	366,568	466,566	328,583	965,607	695,151
Total Net Assets	\$1,506,248	\$1,284,467	\$3,423,403	\$3,276,819	\$4,929,651	\$4,561,286

The Village's combined net assets of \$4.9 million increased 8%, approximately \$368,000 from 2005. Business-type activities (the Water and Sewer Fund) account for 69% of the Village's net asset balance. Unrestricted net assets totaled \$965,607.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis Year Ended June 30, 2006

Government-Wide Financial Analysis – Continued

Table 2:

Comparative Statement of Changes in Net Assets Year Ended June 30,

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$310,446	\$275,845	\$257,991	\$334,633	\$568,437	\$610,478
Federal, state and local grants	165,315	154,466	0	0	165,315	154,466
	475,761	430,311	257,991	334,633	733,752	764,944
General revenues						
Property taxes	523,009	500,140	0	0	523,009	500,140
State grants	111,621	112,481	0	0	111,621	112,481
Other general revenues and transfers out	(61,893)	(5,459)	343,171	140,637	281,278	135,178
	572,737	607,162	343,171	140,637	915,908	747,799
 Total Revenues	 1,048,498	 1,037,473	 601,162	 475,270	 1,649,660	 1,512,743
Functions/Program Expenses						
Legislative	10,703	7,369	0	0	10,703	7,369
General government	203,477	186,733	0	0	203,477	186,733
Public safety	217,943	188,062	0	0	217,943	188,062
Public works	299,947	354,334	0	0	299,947	354,334
Recreation and cultural	73,141	94,221	0	0	73,141	94,221
Other	21,506	23,150	0	0	21,506	23,150
Sewer	0	0	228,799	235,916	228,799	235,916
Water	0	0	225,779	184,209	225,779	184,209
 Total Expenses	 826,717	 853,869	 454,578	 420,125	 1,281,295	 1,273,994
 Increase (Decrease) in Net Assets	 <u>\$221,781</u>	 <u>\$183,604</u>	 <u>\$146,584</u>	 <u>\$55,145</u>	 <u>\$368,365</u>	 <u>\$238,749</u>

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2006*

Government-Wide Financial Analysis - Concluded

The Village's governmental activities had an increase of \$221,781 in net assets. Total revenue increased 1% approximately \$11,025, while total expenses decreased slightly at 3%, approximately \$27,000. The business-type activities had total expenses of \$454,578, and revenue of \$601,162 increasing net assets by \$146,584. The Water and Sewer funds are financed by charges to Village customers. The Village received a settlement of \$200,000 from River City Construction, Inc., relating to a lawsuit. The Village controlled program expenses by continuing the Village Hall's reduced hours, and closely monitoring spending in all areas.

Fund Financial Analysis

As noted earlier, the Village uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the Village of South Rockwood is being held accountable for the resources taxpayers and others provide to it and may give more insight into the Village's overall financial health.

As the Village completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$1,097,234, which is an increase of \$252,249 from last year. The changes by major and nonmajor funds are as follows:

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Funds	Total
Fund balances -					
Beginning of Year	\$299,716	\$182,445	\$135,245	\$227,579	\$844,985
Increase (decrease)	137,429	28,881	71,225	14,714	252,249
Fund balances -					
End of year	<u>\$437,145</u>	<u>\$211,326</u>	<u>\$206,470</u>	<u>\$242,293</u>	<u>\$1,097,234</u>

As indicated below, the General Fund's revenue decreased 7.7% and expenses increased less than 1%. Other revenue represented the largest change in General Fund revenue. Other revenue in 2005 was inflated due to the abandoned property recovery. General Fund program expenses varied slightly from 2005 to 2006.

	June 30, 2006	June 30, 2005	Percent Change
Revenues			
Property taxes	\$523,009	\$500,140	4.6 %
Licenses and permits	44,117	47,543	(7.2)%
Federal grants	-	1,693	N/A
State grants	117,395	135,366	(13.3)%
Local grant	-	22,383	N/A
Charges for services	53,267	46,701	14.1 %
Fines and forfeits	19,273	14,255	35.2 %
Interest	13,627	3,286	314.7 %
Other	<u>92,937</u>	<u>164,093</u>	(43.4)%
Total Revenues	<u>\$863,625</u>	<u>\$935,460</u>	(7.7)%

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2006*

Fund Financial Analysis – Concluded

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Percent Change</u>
Expenditures			
Legislative	\$ 10,703	\$ 7,369	45.2 %
General government	162,503	151,224	7.5 %
Public safety	212,810	213,569	(0.4)%
Public works	139,668	128,356	8.8 %
Recreation and cultural	66,388	90,121	(26.3)%
Other	21,506	23,150	(7.1)%
Operating transfers out	<u>112,618</u>	<u>107,551</u>	4.7 %
Total Expenditures	<u>\$726,196</u>	<u>\$721,340</u>	0.7 %

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Village Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the Village revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the Village's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Revenues – The original budget was amended from \$807,481 to \$824,230. Several factors impact the planning of the General Fund budget. The Village, which relies heavily on property taxes and state shared revenue to fund General Fund expenditures. These two revenues account for 77% of the budgeted revenue.

Expenditures – The original budget was amended from \$873,988 to \$890,737. The Village budgeted a fund balance decrease of (\$179,125). The actual result was a fund balance increase of \$137,429.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2006, the Village had \$6,820,300 invested in a broad range of capital assets, including land, land improvements, building and improvements, machinery and equipment, vehicles, roads, and sewer and water lines. This amount represents an increase of \$76,985 from last year. This year's additions included garage heaters, accounting software, F-350 Ford truck, rake sweeper, salt hopper, hydraulic lift, and water improvements. Depreciation for this year totaled \$161,971. Detailed information regarding capital assets is included in Note 7 to the Financial Statements.

VILLAGE OF SOUTH ROCKWOOD

Management's Discussion and Analysis *Year Ended June 30, 2006*

Capital Assets and Debt Administration (Concluded)

Debt

At June 30, 2006, the Village had debt totaling \$2,050,694. During the year, the Village financed a new Ford F-350 through Ford Motor Credit, and paid off an obligation with Kubota financing. The Village also has accrued a liability for unused sick and comp time pay, which totaled \$40,207 at June 30, 2006. Details regarding debt are included in Note 8 to the financial statements.

Development of the 2006-07 Fiscal Year Budget

Our elected officials considered many factors when setting the Village's 2006-07 fiscal year budget. In developing the 2006-07 General Fund budget, the Village increased revenues by approximately \$36,000 from the 2005-06 year mainly due to increasing revenue for property taxes by \$30,000. Expenditures for 2006-07 were increased by approximately \$106,000 over the 2005-06 year mainly due to increases in salaries, health insurance, capital outlay, zoning ordinance revision, and a \$12,000 increase in the transfer to the Water Fund. The capital outlays for 2006-07 include a new roof with attic storage, a new leased police car, a new leased JD tractor, and playground equipment.

Contacting the Village of South Rockwood

This financial report is designed to provide the Village's citizens, taxpayers, customers, investors and creditors with a general overview of the Village's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Village of South Rockwood, P.O. Box 85, South Rockwood, MI 48179.

VILLAGE OF SOUTH ROCKWOOD

Statement of Net Assets June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$1,143,094	\$414,724	\$1,557,818
Accounts/taxes receivable	14,359	93,712	108,071
Due from other governmental units	36,286	0	36,286
Internal balances	30,301	(30,301)	0
Prepaid expenses	7,867	0	7,867
Depreciable capital assets, net	401,761	4,934,913	5,336,674
Connection fees receivable - noncurrent	0	7,830	7,830
 Total Assets	 1,633,668	 5,420,878	 7,054,546
Liabilities			
Accounts payable	9,598	5,429	15,027
Accrued and other liabilities	45,203	13,971	59,174
Long-term liabilities:			0
Due within one year	10,764	117,888	128,652
Due in more than one year	61,855	1,860,187	1,922,042
 Total Liabilities	 127,420	 1,997,475	 2,124,895
Net Assets			
Invested in capital assets, net of related debt	369,349	2,956,838	3,326,187
Restricted for drug enforcement / education	3,664	0	3,664
Restricted for highways and streets	417,796	0	417,796
Restricted for cemetery	216,398	0	216,398
Unrestricted	499,041	466,565	965,606
 Total Net Assets	 \$1,506,248	 \$3,423,403	 \$4,929,651

See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Statement of Activities Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government -			
Governmental activities:			
Legislative	\$10,703	\$0	\$0
General government	203,477	104,435	0
Public safety	217,943	63,390	1,018
Public works	299,947	115,297	164,297
Recreation and cultural	73,141	27,324	0
Other	21,506	0	0
Total Governmental Activities	826,717	310,446	165,315
Business-type activities:			
Sewer	228,799	115,214	0
Water	225,779	142,777	0
Total business type activities	454,578	257,991	0
Total primary government	<u>\$1,281,295</u>	<u>\$568,437</u>	<u>\$165,315</u>

General Revenues:

Property taxes
 State grants
 Debt service and connection charges
 Interest and investment earnings
 River City settlement
 Other
 Transfers

Total General Revenues & Transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
(\$10,703)	\$0	(\$10,703)
(99,042)	0	(99,042)
(153,535)	0	(153,535)
(20,353)	0	(20,353)
(45,817)	0	(45,817)
(21,506)	0	(21,506)
(350,956)	0	(350,956)
0	(113,585)	(113,585)
0	(83,002)	(83,002)
0	(196,587)	(196,587)
(350,956)	(196,587)	(547,543)
523,009	0	523,009
111,621	0	111,621
0	25,185	25,185
32,059	10,368	42,427
0	200,000	200,000
13,666	0	13,666
(107,618)	107,618	0
572,737	343,171	915,908
221,781	146,584	368,365
1,284,467	3,276,819	4,561,286
\$1,506,248	\$3,423,403	\$4,929,651

VILLAGE OF SOUTH ROCKWOOD

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Street Fund	Local Street Fund
Assets			
Cash and investments	\$405,875	\$214,831	\$209,737
Accounts/taxes receivable	14,359	0	0
Due from other governmental units	36,286	0	0
Due from other funds	35,273	0	0
Prepaid expense	7,867	0	0
Total Assets	<u>\$499,660</u>	<u>\$214,831</u>	<u>\$209,737</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$9,598	\$0	\$0
Due to other funds	7,714	3,505	3,267
Escrow accounts	45,203	0	0
Total Liabilities	62,515	3,505	3,267
Fund Balances			
Reserved for prepaid expenses	7,867	0	0
Reserved for drug enforcement/education	3,664	0	0
Unreserved:			
Designated for future projects	162,822	0	0
Undesignated, reported in:			
General Fund	262,792	0	0
Special Revenue Funds	0	211,326	206,470
Capital Projects Fund	0	0	0
Total Fund Balances	<u>437,145</u>	<u>211,326</u>	<u>206,470</u>
Total Liabilities and Fund Balances	<u>\$499,660</u>	<u>\$214,831</u>	<u>\$209,737</u>

See accompanying notes to the basic financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$247,370	\$1,077,813
0	14,359
0	36,286
0	35,273
0	7,867
<u>\$247,370</u>	<u>\$1,171,598</u>
\$0	\$9,598
5,077	19,563
0	45,203
5,077	74,364
0	7,867
0	3,664
0	162,822
0	262,792
216,398	634,194
25,895	25,895
242,293	1,097,234
<u>\$247,370</u>	<u>\$1,171,598</u>

VILLAGE OF SOUTH ROCKWOOD

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2006*

Total Fund Balances - Governmental Funds	\$1,097,234
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

Cost of the capital assets	\$507,598	
Accumulated depreciation	<u>(238,102)</u>	
		269,496

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Obligations under capital lease	(3,063)	
Compensated absences	<u>(40,207)</u>	
		(43,270)

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are reported with the governmental activities.

	<u>182,788</u>
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Total Net Assets - Governmental Activities	<u>\$1,506,248</u>
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See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Street Fund	Local Street Fund
Revenues			
Taxes	\$523,009	\$0	\$0
Licenses and permits	44,117	0	0
State grants	117,395	73,248	30,963
Local contribution	0	0	55,330
Charges for services	53,267	0	0
Fines and forfeits	19,273	0	0
Interest/investment income	13,627	6,713	4,644
Other revenue	92,937	0	0
Total Revenues	863,625	79,961	90,937
Expenditures			
Current Operating:			
Legislative	10,703	0	0
General government	162,503	0	0
Public safety	212,810	0	0
Public works	139,668	41,080	34,712
Recreation and cultural	66,388	0	0
Other	21,506	0	0
Total Expenditures	613,578	41,080	34,712
Excess (Deficiency) of Revenues Over Expenditures	250,047	38,881	56,225
Other Financing Sources (Uses)			
Operating transfers in	0	0	15,000
Operating transfers out	(112,618)	(10,000)	0
Total Other Financing Sources (Uses)	(112,618)	(10,000)	15,000
Net Change in Fund Balances	137,429	28,881	71,225
Fund Balances - Beginning of year	299,716	182,445	135,245
Fund Balances - End of year	<u>\$437,145</u>	<u>\$211,326</u>	<u>\$206,470</u>

See accompanying notes to the basic financial statements.

Other Nonmajor Governmental Funds	Total Governmental Funds
\$0	\$523,009
0	44,117
0	221,606
0	55,330
46,635	99,902
0	19,273
4,389	29,373
100	93,037
51,124	1,085,647
0	10,703
36,410	198,913
0	212,810
0	215,460
0	66,388
0	21,506
36,410	725,780
14,714	359,867
0	15,000
0	(122,618)
0	(107,618)
14,714	252,249
227,579	844,985
\$242,293	\$1,097,234

VILLAGE OF SOUTH ROCKWOOD

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006*

Total Net Change in Fund Balances - Governmental Funds	\$252,249
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(\$36,819)
Capital outlay	<u>11,015</u>
	(25,804)
Increases in the liability for compensated absences are reported as an expenditure in the statement of activities, but not in the government funds.	(916)
Repayments of capital lease principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt).	11,887
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the Internal Service Fund is reported with governmental activities.	<u>(15,635)</u>
Change in Net Assets of Governmental Activities	<u>\$221,781</u>

See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds Statement of Net Assets June 30, 2006

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Assets				
Current Assets:				
Cash	\$183,085	\$231,639	\$414,724	\$65,281
Receivables	50,718	42,994	93,712	0
Due from other funds	80,298	0	80,298	16,180
Total Current Assets	314,101	274,633	588,734	81,461
Capital Assets:	3,169,100	2,731,807	5,900,907	411,795
Less: Allowance for depreciation	(632,503)	(333,491)	(965,994)	(279,530)
Net Capital Assets	2,536,597	2,398,316	4,934,913	132,265
Other Assets:				
Connection fees receivable - noncurrent	7,830	0	7,830	0
Total Assets	2,858,528	2,672,949	5,531,477	213,726
Liabilities				
Current Liabilities:				
Accounts payable	0	5,429	5,429	0
Accrued interest payable	5,565	8,406	13,971	0
Due to other funds	1,088	109,511	110,599	1,589
Current portion of long-term debt	52,888	65,000	117,888	7,701
Total Current Liabilities	59,541	188,346	247,887	9,290
Noncurrent Liabilities:				
Long-term debt-net of current portion	580,187	1,280,000	1,860,187	21,648
Total Liabilities	639,728	1,468,346	2,108,074	30,938
Net Assets				
Invested in capital assets, net of related debt	1,903,522	1,053,316	2,956,838	102,916
Unrestricted	315,278	151,287	466,565	79,872
Total Net Assets	\$2,218,800	\$1,204,603	\$3,423,403	\$182,788

See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds *Statement of Revenues, Expenses, and Changes in Fund Net Assets* *Year ended June 30, 2006*

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Operating Revenues				
Charges for services	\$112,016	\$127,528	\$239,544	\$62,030
Penalties	3,023	3,709	6,732	0
Tapping fees	0	9,300	9,300	0
Other revenue	175	2,240	2,415	5,753
Total Operating Revenues	115,214	142,777	257,991	67,783
Operating Expenses				
Water purchase	0	50,919	50,919	0
Transmission and distribution	353	101,927	102,280	79,571
Maintenance of lines	107,032	0	107,032	0
Processing of sewage	64,988	0	64,988	0
Office and Administration	42,164	37,391	79,555	6,000
Total Operating Expenses	214,537	190,237	404,774	85,571
Operating Income (Loss)	(99,323)	(47,460)	(146,783)	(17,788)
Non-operating Revenues (Expenses)				
River City settlement	0	200,000	200,000	0
Debt service charge	15,516	2,439	17,955	0
Connection fees	7,230	0	7,230	0
Interest income	1,694	8,674	10,368	2,686
Interest expense	(14,262)	(35,542)	(49,804)	(533)
Total Non-operating Revenues (Expenses)	10,178	175,571	185,749	2,153
Income (Loss) before Transfers	(89,145)	128,111	38,966	(15,635)
Transfers in	0	107,618	107,618	0
Change in Net Assets	(89,145)	235,729	146,584	(15,635)
Net Assets - Beginning of year	2,307,945	968,874	3,276,819	198,423
Net Assets - End of year	<u>\$2,218,800</u>	<u>\$1,204,603</u>	<u>\$3,423,403</u>	<u>\$182,788</u>

See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Proprietary Funds Statement of Cash Flows Year ended June 30, 2006

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Cash Flows from Operating Activities:				
Receipts from customers	\$126,897	\$161,018	\$287,915	\$68,113
Payments to suppliers	(132,496)	(120,173)	(252,669)	(29,044)
Payments to employees	(9,649)	(26,309)	(35,958)	(23,076)
Payments to Internal Service Fund and administration fees	(24,000)	0	(24,000)	0
Net cash provided by operating activities	(39,248)	14,536	(24,712)	15,993
Cash Flows from Noncapital Financing Activities:				
Transfers in	0	107,618	107,618	0
Advance to the Water Fund	136,295	0	136,295	0
Advance from the other funds	0	(141,422)	(141,422)	0
Net cash flows from noncapital financing activities	136,295	(33,804)	102,491	0
Cash Flows from Capital and Related Financing Activities:				
River City settlement	0	200,000	200,000	0
Purchase of capital assets	0	(15,228)	(15,228)	(50,742)
Principal payments on contracts payable	(20,947)	(65,000)	(85,947)	28,444
Interest paid	(10,677)	(35,948)	(46,625)	(533)
Debt service and connection charges	21,816	2,439	24,255	0
Net cash used for capital and related financing activities	(9,808)	86,263	76,455	(22,831)
Cash Flows from Investing Activities:				
Interest income	1,694	8,674	10,368	2,686
Net Increase (Decrease) in Cash and Cash Equivalents	88,933	75,669	164,602	(4,152)
Cash and Cash Equivalents - Beginning of Year	94,152	155,970	250,122	69,433
Cash and Cash Equivalents - End of Year	<u>\$183,085</u>	<u>\$231,639</u>	<u>\$414,724</u>	<u>\$65,281</u>

See accompanying notes to the basic financial statements.

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	(\$99,323)	(\$47,460)	(\$146,783)	(\$17,788)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	48,392	44,181	92,573	32,579
Changes in operating assets and liabilities:				
Receivables	11,683	18,241	29,924	330
Due from other funds	0	0	0	872
Accounts payable	0	(426)	(426)	0
Net cash provided by operating activities	<u>(\$39,248)</u>	<u>\$14,536</u>	<u>(\$24,712)</u>	<u>\$15,993</u>

See accompanying notes to the basic financial statements.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 1 Description of the Village and Reporting Entity

The Village operates under a locally elected six member Council form of government. The Village provides the following services: public safety (police), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, cemetery, water and sewer, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards, and agencies that are not legally separate from the Village.

Component units are legally separate organizations for which the Village is financially accountable. Component units may also include organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt, or the levying of taxes. The Village has no component units.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Village of South Rockwood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement 20 the Village has elected not to apply the FASB statements and interpretation issued after November 30, 1989, to its financial statements. Following are the more significant of the Village's accounting policies.

Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. The Village's government-wide activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds and the individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2006

Note 2 Summary of Significant Accounting Policies (Continued)
Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. The General Fund accounts for all financial resources of the Village, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Village reports the following major proprietary funds:

The Water Supply System Fund accounts for the operation and maintenance of the water supply system, capital additions and retirement of debt. Financing is provided by user charges and contributions by other funds.

The Sewage System Fund accounts for the operation and maintenance of the sewage disposal system, capital additions and retirement of debt. Financing is provided by user charges.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Concluded) Fund Financial Statements (Concluded)

Additionally, the Village reports the following Internal Service fund type:

The Equipment Fund accounts for the financing and maintenance of machinery and equipment used by other Village departments. Such costs are billed to the other departments at rates established by the State of Michigan.

The Village reports the following nonmajor governmental funds:

The Riverside Cemetery Fund, and Capital Projects Fund are the Village's nonmajor governmental funds. These funds are used to account for specific revenue sources that are restricted for a particular purpose.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. Taxes are considered delinquent September 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, water or sewer lines) are reported in the applicable governmental or business-type activities columns of the government wide financial statements. Capital assets are defined by the Village as assets with an individual cost of more than \$1,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 2 Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Continued)

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	15 years
Buildings and buildings improvements	15-60 years
Machinery and equipment	3-15 years
Vehicles	5-10 years
Water and sewer lines	50-99 years
Roads	20 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debt, notes and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets.

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds, are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 2 Summary of Significant Accounting Policies (Concluded)

Basis of Presentation (Concluded)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - Village employees are granted vacation and personal days under formulas and conditions in the employees' contract. The vacation and personal pay is accrued in the government wide financial statements. In the fund financial statements, these amounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Village and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Village Council at the function level. Any budgetary modifications may only be made by resolution of the Village Council.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the Village Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the Village Council.
5. Budgets are adopted on basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 3 Stewardship, Accountability and Compliance

The Village shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds.

In the required supplemental information, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

Note 4 Deposits and Investments

Statutes authorize the Village to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the Village may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2006, the Village of South Rockwood had invested in such a fund with a local bank. The Village is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The Council has adopted an investment policy authorizing certain types of investments and authorized one depository: Monroe Bank and Trust.

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. As of June 30, 2006, \$1,478,599 of the Village's bank balance of \$1,578,599 was exposed to custodial credit risk deposits because it was uninsured and uncollateralized. The Village does not have a deposit policy for custodial credit risk. The Village believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village has not adopted a policy that indicates how the Village will minimize custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Village's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$62,191	Counterparty

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 4 Deposits and Investments (Concluded)

Interest rate risk. The Village's does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. governmental and agency securities	\$62,191	7.57 years

Credit risk. State law limits investments in commercial paper to the top two ratings issued by nationally statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$62,191	AAA	Standard & Poor's

Concentration of credit risk. The Village does not have a formal investment policy that limits the amount the Village may invest in any one issuer as a means of diversifying it's investment portfolio. The Village has more than 5% of its investments in the following:

U.S. government agencies	100%
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VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements
Year Ended June 30, 2006

Note 5 Interfund Receivables and Payables

Balances at June 30, 2006 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund:		
Major Street Fund	\$ 1,432	\$ -
Local Street Fund	1,613	-
Cemetery	763	-
Sewer Fund	1,080	388
Water Fund	28,796	-
Equipment Fund	1,589	7,326
Major Street Fund:		
General Fund	-	1,432
Equipment Fund	-	2,073
Local Street Fund:		
General Fund	-	1,613
Equipment Fund	-	1,654
Cemetery Fund:		
General Fund	-	763
Equipment Fund	-	4,314
Sewer Fund:		
General Fund	388	1,080
Water Fund	79,910	-
Equipment Fund	-	8
Water Fund:		
General Fund	-	28,796
Sewer Fund	-	79,910
Equipment Fund	-	805
Equipment Fund:		
General	7,326	1,589
Major Street Fund	2,073	-
Local Street Fund	1,654	-
Cemetery	4,314	-
Water Fund	805	-
Sewer Fund	<u>8</u>	<u>-</u>
	<u>\$131,751</u>	<u>\$131,751</u>

Note 6 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2006, consisted of the following:

	<u>Transfers Out</u>		
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Total</u>
<u>Transfers In:</u>			
Local Street Fund	\$ 5,000	\$10,000	\$ 15,000
Water Fund	<u>107,618</u>	<u>-</u>	<u>107,618</u>
	<u>\$112,618</u>	<u>\$10,000</u>	<u>\$122,618</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 6 Interfund Transfers (Concluded)

The transfers from the General Fund and Major Street Fund to the Local Street Fund were for local street maintenance. The General Fund budgeted and transferred three mills of property taxes to the Water Fund for operation expenses.

Note 7 Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental Activities:				
Assets not being depreciated:				
Land	\$39,000	\$0	\$0	\$39,000
Capital assets being depreciated:				
Building and building improvements	124,416	4,435	0	128,851
Land improvements	111,958	0	0	111,958
Police vehicles	64,654	0	0	64,654
Police equipment	50,742	0	0	50,742
Office equipment	24,195	6,580	0	30,775
Roads	81,618	0	0	81,618
Equipment Fund	361,053	50,742	0	411,795
Total capital assets	857,636	61,757	0	919,393
Less accumulated depreciation for:				
Building and building improvements	(71,327)	(2,909)	0	(74,236)
Land improvements	(55,540)	(7,464)	0	(63,004)
Police vehicles	(35,470)	(12,931)	0	(48,401)
Police equipment	(20,509)	(4,748)	0	(25,257)
Office equipment	(15,377)	(4,686)	0	(20,063)
Roads	(3,060)	(4,081)	0	(7,141)
Equipment Fund	(246,951)	(32,579)	0	(279,530)
Total accumulated depreciation	(448,234)	(69,398)	0	(517,632)
Net capital assets	\$409,402	(\$7,641)	\$0	\$401,761

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 7 Capital Assets (Continued)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business Activities:				
Assets not being depreciated:				
Land	\$3,410	\$0	\$0	\$3,410
Capital assets being depreciated:				
Water lines	2,042,991	15,228	0	2,058,219
Sewer lines	1,972,183	0	0	1,972,183
Mains / meters	640,265	0	0	640,265
Sewer treatment plant	1,193,507	0	0	1,193,507
Equipment	<u>33,323</u>	<u>0</u>	<u>0</u>	<u>33,323</u>
Total capital assets	5,885,679	15,228	0	5,900,907
Less accumulated depreciation for:				
Water lines	(79,755)	(33,107)	0	(112,862)
Sewer lines	(412,639)	(27,030)	0	(439,669)
Mains / meters	(203,442)	(9,172)	0	(212,614)
Sewer treatment plant	(171,472)	(21,362)	0	(192,834)
Equipment	<u>(6,113)</u>	<u>(1,902)</u>	<u>0</u>	<u>(8,015)</u>
Total accumulated depreciation	<u>(873,421)</u>	<u>(92,573)</u>	<u>0</u>	<u>(965,994)</u>
Net capital assets	<u>\$5,012,258</u>	<u>(\$77,345)</u>	<u>\$0</u>	<u>\$4,934,913</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 7,272
Public safety	18,713
Public works	36,660
Recreation and cultural	<u>6,753</u>
Total governmental activities	<u>\$69,398</u>
Business-type activities:	
Sewer fund	\$48,392
Water fund	<u>44,181</u>
Total business-type activities	<u>\$92,573</u>

VILLAGE OF SOUTH ROCKWOOD

*Notes to Financial Statements
Year Ended June 30, 2006*

Note 8

Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Original Amount of Issue</u>	<u>Balance Outstanding</u>
Contract Liability for: South Huron Valley Utility Authority - 1991 SRF Bonds	2.00%	9/26/91	4/1/2011	\$ 162,374	\$ 51,120
Contract Liability for: South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds	2.25%	9/29/98	10/1/2020	195,620	152,602
Contract Liability for: South Huron Valley Utility Authority - 2004 SRF Bonds	2.125%	6/24/04	4/1/2026	203,762	203,762
Contract Liability for: City of Woodhaven - 4% share of South Huron Valley Utility Authority 1991, 1998, and 2004 SRF Bonds	2.00 - 2.25%	3/22/05	4/1/2026	237,367	225,591
Contract Liability for: Michigan Municipal Bond Authority - Monroe County Water Supply System Bonds Village of South Rockwood System No. 2.	2.50%	9/26/02	4/1/2023	1,530,000	<u>1,345,000</u>
					1,978,075

Obligations under Capital Leases:

Ford Motor Credit Company-
Municipal, payable \$2,369.19
quarterly, beginning January 6,
2006, including interest at
6.70%, due October 06, 2009,
secured by the truck.

6.70%	1/06/06	10/06/2009	33,565	29,349
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VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 8 Long-Term Debt (Continued)

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity Dates</u>	<u>Original Amount of Issue</u>	<u>Balance Outstanding</u>
Obligations under Capital Leases:					
Ford Motor Credit Police Car Lease, payable \$3,101 quarterly, beginning October 29, 2003, including interest at 4.90% due July 29, 2006, secured by the car.	4.90%	10/29/03	7/29/2006	\$34,829	\$ <u>3,063</u>
					32,412
Compensated absences payable					<u>40,207</u>
					<u>\$2,050,694</u>

Compensated absences payable represents sick and comp time pay accrued as of June 30, 2006.

The following is a summary of changes in long-term debt:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Contract Liability for:					
South Huron Valley Utility Authority -1991 SRF Bonds	\$ 60,709	\$ -	\$ 9,589	\$ 51,120	\$ 9,843
Contract Liability for:					
South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds	161,091	-	8,489	152,602	8,673
Contract Liability for:					
South Huron Valley Utility Authority - 2004 SRF Bonds	203,762	-	-	203,762	8,288
Contract Liability for:					
City of Woodhaven 4% share of South Huron Valley Utility Authority 1991, 1998, and 2004 SRF Bonds	228,460	-	2,869	225,591	26,084

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 8 Long-Term Debt (Continued)

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Contract Liability for:					
Michigan Municipal					
Bond Authority -					
Monroe County Water					
Supply System Bonds					
VSR System No. 2	\$1,410,000	\$ -	\$ 65,000	\$1,345,000	\$ 65,000
	2,064,022	-	85,947	1,978,075	117,888
Obligations under Capital Leases:					
Truck Lease	-	33,565	4,216	29,349	7,701
Tractor Lease	905	-	905	-	-
Police Car Lease	<u>14,950</u>	<u>-</u>	<u>11,887</u>	<u>3,063</u>	<u>3,063</u>
	15,885	33,565	17,008	32,412	10,764
Compensated absences	<u>39,291</u>	<u>916</u>	<u>-</u>	<u>40,207</u>	<u>-</u>
	<u>\$2,119,168</u>	<u>\$34,481</u>	<u>\$102,955</u>	<u>\$2,050,694</u>	<u>\$128,652</u>

Contract liability for South Huron Valley Utility Authority - 1991 SRF Bonds original issue of \$12,785,000 with the Village's share set at 1.27%, equaling \$162,374. The Bonds were issued September 26, 1991, by the County of Wayne:

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/06	\$ -	\$ 511	\$ 511
04/1/07	9,843	511	10,354
10/1/07	-	413	413
04/1/08	10,033	413	10,446
10/1/08	-	312	312
04/1/09	10,224	312	10,536
10/1/09	-	210	210
04/1/10	10,414	210	10,624
10/1/10	-	106	106
04/1/11	<u>10,606</u>	<u>106</u>	<u>10,712</u>
	<u>\$51,120</u>	<u>\$3,104</u>	<u>\$54,224</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 8

Long-Term Debt (Continued)

South Huron Valley Utility Authority - 1998 Sewer System Plant Expansion Bonds, original issue of \$26,615,000 dated September 29, 1998 with the Village's share set at 0.735%, equaling \$195,620.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/06	\$ 8,673	\$ 1,717	\$ 10,390
04/1/07	-	1,619	1,619
10/1/07	8,857	1,619	10,476
04/1/08	-	1,520	1,520
10/1/08	9,077	1,520	10,597
04/1/09	-	1,417	1,417
10/1/09	9,261	1,417	10,678
04/1/10	-	1,313	1,313
10/1/10	9,482	1,313	10,795
04/1/11	-	1,207	1,207
10/1/11	9,702	1,207	10,909
04/1/12	-	1,097	1,097
10/1/12	9,923	1,097	11,020
04/1/13	-	986	986
10/1/13	10,106	986	11,092
04/1/14	-	872	872
10/1/14	10,327	872	11,199
04/1/15	-	756	756
10/1/15	10,584	756	11,340
04/1/16	-	637	637
10/1/16	10,805	637	11,442
04/1/17	-	515	515
10/1/17	11,062	515	11,577
04/1/18	-	391	391
10/1/18	11,319	391	11,710
04/1/19	-	264	264
10/1/19	11,576	264	11,840
04/1/20	-	133	133
10/1/20	<u>11,848</u>	<u>133</u>	<u>11,981</u>
	<u>\$152,602</u>	<u>\$27,171</u>	<u>\$179,773</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 8

Long-Term Debt (Continued)

South Huron Valley Utility Authority - 2004 SRF Bonds original issue of \$9,220,000 dated June 24, 2004 with the Village's share set at 2.210%, equaling \$203,762.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/01/06	\$0	\$2,165	\$2,165
04/01/07	8,288	2,165	10,453
10/01/07	0	2,077	2,077
04/01/08	8,398	2,077	10,475
10/01/08	0	1,988	1,988
04/01/09	8,619	1,988	10,607
10/01/09	0	1,896	1,896
04/01/10	8,840	1,896	10,736
10/01/10	0	1,802	1,802
04/01/11	8,950	1,802	10,752
10/01/11	0	1,707	1,707
04/01/12	9,172	1,707	10,879
10/01/12	0	1,610	1,610
04/01/13	9,393	1,610	11,003
10/01/13	0	1,510	1,510
04/01/14	9,614	1,510	11,124
10/01/14	0	1,408	1,408
04/01/15	9,834	1,408	11,242
10/01/15	0	1,303	1,303
04/01/16	10,056	1,303	11,359
10/01/16	0	1,196	1,196
04/01/17	10,166	1,196	11,362
10/01/17	0	1,088	1,088
04/01/18	10,387	1,088	11,475
10/01/18	0	978	978
04/01/19	10,608	978	11,586
10/01/19	0	865	865
04/01/20	10,939	865	11,804
10/01/20	0	749	749
04/01/21	11,160	749	11,909
10/01/21	0	630	630
04/01/22	11,382	630	12,012
10/01/22	0	510	510
04/01/23	11,602	510	12,112
10/01/23	0	386	386
04/01/24	11,823	386	12,209
10/01/24	0	261	261
04/01/25	12,155	261	12,416
10/01/25	0	132	132
04/01/26	12,376	132	12,508
	<u>\$203,762</u>	<u>\$48,522</u>	<u>\$252,284</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 8 Long-Term Debt (Continued)

City of Woodhaven - South Huron Valley Utility Authority - 1991 SRF Bonds, 1998 Sewer System Plant Expansion Bonds, and 2004 SRF Bonds, 4% share of the City of Woodhaven's SHVUA debt share.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
04/01/06	\$9,087	\$2,278	\$11,365
10/01/06	2,931	2,302	5,233
04/01/07	14,066	2,269	16,335
10/01/07	2,992	2,125	5,117
04/01/08	14,309	2,091	16,400
10/01/08	3,066	1,945	5,011
04/01/09	14,617	1,911	16,528
10/01/09	3,127	1,763	4,890
04/01/10	14,923	1,728	16,651
10/01/10	3,200	1,575	4,775
04/01/11	15,167	1,539	16,706
10/01/11	3,274	1,384	4,658
04/01/12	5,244	1,347	6,591
10/01/12	3,348	1,291	4,639
04/01/13	5,370	1,253	6,623
10/01/13	3,421	1,196	4,617
04/01/14	5,496	1,158	6,654
10/01/14	3,495	1,100	4,595
04/01/15	5,623	1,060	6,683
10/01/15	3,581	1,000	4,581
04/01/16	5,749	960	6,709
10/01/16	3,654	899	4,553
04/01/17	5,812	858	6,670
10/01/17	3,740	796	4,536
04/01/18	5,939	754	6,693
10/01/18	3,826	691	4,517
04/01/19	6,065	648	6,713
10/01/19	3,912	584	4,496
04/01/20	6,254	540	6,794
10/01/20	3,997	473	4,470
04/01/21	6,381	428	6,809
10/01/21	0	360	360
04/01/22	6,507	360	6,867
10/01/22	0	291	291
04/01/23	6,633	291	6,924
10/01/23	0	221	221
04/01/24	6,760	221	6,981
10/01/24	0	149	149
04/01/25	6,949	149	7,098
10/01/25	0	75	75
04/01/26	7,076	75	7,151
	<u>\$225,591</u>	<u>\$42,138</u>	<u>\$267,729</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 8

Long-Term Debt (Continued)

Michigan Municipal Bond Authority - Monroe County Water Supply System Bonds, Village of South Rockwood System #2, original issue of \$1,530,000 dated September 26, 2002.

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
10/1/06	\$ -	\$ 16,812	\$ 16,812
04/1/07	65,000	16,813	81,813
10/1/07	-	16,000	16,000
04/1/08	65,000	16,000	81,000
10/1/08	-	15,187	15,187
04/1/09	70,000	15,188	85,188
10/1/09	-	14,312	14,312
04/1/10	70,000	14,313	84,313
10/1/10	-	13,437	13,437
04/1/11	70,000	13,438	83,438
10/1/11	-	12,562	12,562
04/1/12	75,000	12,563	87,563
10/1/12	-	11,625	11,625
04/1/13	75,000	11,625	86,625
10/1/13	-	10,687	10,687
04/1/14	75,000	10,688	85,688
10/1/14	-	9,750	9,750
04/1/15	80,000	9,750	89,750
10/1/15	-	8,750	8,750
04/1/16	80,000	8,750	88,750
10/1/16	-	7,750	7,750
04/1/17	80,000	7,750	87,750
10/1/17	-	6,750	6,750
04/1/18	85,000	6,750	91,750
10/1/18	-	5,688	5,688
04/1/19	85,000	5,688	90,688
10/1/19	-	4,625	4,625
04/1/20	90,000	4,625	94,625
10/1/20	-	3,500	3,500
04/1/21	90,000	3,500	93,500
10/1/21	-	2,375	2,375
04/1/22	95,000	2,375	97,375
10/1/22	-	1,187	1,187
04/1/23	<u>95,000</u>	<u>1,187</u>	<u>96,187</u>
	<u>\$1,345,000</u>	<u>\$322,000</u>	<u>\$1,667,000</u>

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 8 Long-Term Debt (Concluded)

The annual requirements to pay principal and interest on the long-term debt outstanding at June 30, 2006, excluding compensated absences, are as follows:

<u>Fiscal Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$10,764	\$1,813	\$12,577
2008	8,230	1,246	9,476
2009	8,796	681	9,477
2010	<u>4,622</u>	<u>116</u>	<u>4,738</u>
	<u>\$32,412</u>	<u>\$3,856</u>	<u>\$36,268</u>

<u>Fiscal Years</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 117,888	\$ 49,162	\$ 167,050
2008	109,589	44,335	153,924
2009	115,603	41,768	157,371
2010	116,565	39,058	155,623
2011	117,405	36,325	153,730
2012 - 2016	528,312	142,841	671,153
2017 - 2021	589,450	76,292	665,742
2022 - 2026	<u>283,263</u>	<u>13,154</u>	<u>296,417</u>
	<u>\$1,978,075</u>	<u>\$442,935</u>	<u>\$2,421,010</u>

Note 9 Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by the Public Employees Benefit Services Corporation (PEBSCO), as agent for the United States Conference of Mayors (USCM) of Washington, D.C. The Plan, available to all Village employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of employees. While the contract is held by the Village of South Rockwood, the assets of the plan are held for the exclusive benefit of plan participants and their beneficiaries. The plan assets cannot be used to satisfy claims of general creditors. Therefore, the amount held in trust is not shown on the balance sheet.

Note 10 Cablevision Franchise Fees

On October 18, 1982, the Village Council decided that all monies received from Wayne Cablevision for franchise fees would be accumulated, along with applicable interest, until it decides how the money will be spent. During the fiscal year ending June 30, 2006, the Village did not spend any of these monies. As of June 30, 2006, \$162,822 has been accumulated.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements Year Ended June 30, 2006

Note 11 Property Taxes

Under its charter, the Village may levy up to 20 mills for general operating purposes. Taxes are levied on July 1 each year and are collected by the Village from July 1 to September 14. The property tax revenue is recognized in the period that the tax was levied. The taxable value for both real and personal property as of December 31, 2004 amounted to \$35,872,781 which represents a percentage of the fair market value of the assessed property.

The 2005 tax roll consisted of 14.5 mills levied for the General Fund. The Village budgeted three of the 14.5 mills as a contribution to the Water Supply System Fund amounting to \$107,618.

Note 12 Sharing of Administrative and General Expenses

As a method of prorating certain administrative and general expenses to the various funds of the Village, the Village Council adopted, as part of the annual budget, a schedule of payments to be made to the General Fund by the various funds to cover their share of the designated expenses. The following schedule of payments was included in the 2005-06 budget:

Major Street Fund	\$ 7,000
Local Street Fund	2,800
Sewage System Fund	24,000
Water Supply Fund	18,000
Equipment Fund	<u>6,000</u>
Total	<u>\$57,800</u>

Note 13 Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The Village has purchased commercial insurance for property loss, torts, errors, omissions and employee injuries.

Note 14 Charges for Services

Charges for users and beneficiaries of the Water Supply System and Sewer System Enterprise Funds consist of the following:

Water Supply System:

Water sales - a water charge is billed at rates established by the Village based on water consumption.

Debt service charge - a debt service charge of \$5.00 per quarter is charged to each user to a maximum of \$300. Effective December 31, 2001, the \$300 charge is paid prior to connection to the water system.

Sewer System:

Sewage treatment charge - a sewer treatment charge is billed at rates established by the Village based on water consumption.

Sewer maintenance charge - a sewer maintenance charge of \$4.00 per month is charged to each customer of the system.

Debt service charge - a debt service charge of \$2.36 per month per unit is charged to each user of the system.

VILLAGE OF SOUTH ROCKWOOD

Notes to Financial Statements *Year Ended June 30, 2006*

Note 15 Drug Forfeiture Funds

During the year ending June 30, 2006, the Village did not receive any drug forfeiture funds, earned \$108 in interest on drug forfeiture funds and expended \$592 of these funds for drug enforcement and education. As of June 30, 2006, the Village has \$3,664 on hand for future related expenditures.

Note 16 Building Department

The Village tracks building permit fees and their related costs in the General Fund. Fees for the fiscal year ending June 30, 2006, of \$44,117 did not exceed the related costs and administrative overhead.

VILLAGE OF SOUTH ROCKWOOD

General Fund Statement of Revenues, Expenditures, and Fund Balance Budget to Actual Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$521,455	\$521,455	\$523,009	\$1,554
Licenses and permits	25,297	31,097	44,117	13,020
State grants:				
State shared revenue	113,000	113,000	111,621	(1,379)
Right of way	0	0	4,756	4,756
Liquor license fees	1,235	1,235	1,018	(217)
	114,235	114,235	117,395	3,160
Charges for services:				
Weed cutting	335	335	1,335	1,000
Refuse collection	43,537	43,537	51,596	8,059
Other	250	250	336	86
	44,122	44,122	53,267	9,145
Fines and forfeits	11,000	11,000	19,273	8,273
Interest income	1,500	9,100	13,627	4,527
Other revenue:				
Summer recreation program	31,072	31,072	27,324	(3,748)
Administration expenses	57,800	57,800	57,800	0
Other revenue	1,000	4,349	7,813	3,464
	89,872	93,221	92,937	(284)
 Total Revenues	 807,481	 824,230	 863,625	 39,395
Expenditures				
Legislative:				
Council	21,366	13,518	10,703	2,815
General government:				
President	764	771	646	125
Audit fees	13,000	14,630	14,630	0
Legal fees	11,708	8,708	8,169	539
Clerk	63,560	64,603	63,200	1,403
Treasurer	19,432	24,064	22,360	1,704
Election	1,455	1,931	1,873	58
Village hall and grounds	72,112	60,334	51,625	8,709
Promotional	50	50	0	50
	182,081	175,091	162,503	12,588

VILLAGE OF SOUTH ROCKWOOD

General Fund Statement of Revenues, Expenditures, and Fund Balance Budget to Actual Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures (Concluded)				
Public safety:				
Police department	\$195,221	\$205,435	\$192,308	\$13,127
Building inspection	19,500	13,310	11,593	1,717
Electrical inspection	9,200	9,208	5,998	3,210
Plumbing inspection	10,683	3,832	1,775	2,057
Zoning board	1,115	1,334	1,016	318
Ordinance enforcer	2,733	2,616	0	2,616
Planning commission	2,700	2,700	120	2,580
	241,152	238,435	212,810	25,625
Public works:				
Department of public works	68,863	68,294	50,100	18,194
Street lighting	17,000	17,500	17,204	296
Sanitation	47,596	49,529	49,041	488
Engineer	9,000	9,000	1,685	7,315
Recycling	22,908	22,531	21,638	893
	165,367	166,854	139,668	27,186
Recreation and cultural:				
Playground	40,090	38,987	36,082	2,905
Youth program	775	775	790	(15)
Summer recreation program	31,072	31,072	29,516	1,556
	71,937	70,834	66,388	4,446
Other:				
Unemployment compensation	3,000	4,200	4,190	10
Insurance and bonds	18,000	40,000	17,316	22,684
Contingencies	171,085	181,805	0	181,805
	192,085	226,005	21,506	204,489
Total Expenditures	873,988	890,737	613,578	277,149
Excess (Deficiency) of Revenues Over Expenditures	(66,507)	(66,507)	250,047	316,544
Other Financing Sources (Uses)				
Operating transfer out	(112,618)	(112,618)	(112,618)	0
Net Change in Fund Balances	(179,125)	(179,125)	137,429	316,544
Fund Balances - Beginning of year	179,125	179,125	299,716	120,591
Fund Balances - End of year	\$0	\$0	\$437,145	\$437,135

VILLAGE OF SOUTH ROCKWOOD

Major Street Fund
Statement of Revenues, Expenditures, and Fund Balance
Budget to Actual
Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants:				
Gas and weight tax	\$68,000	\$68,000	\$70,820	\$2,820
Local program funds	2,400	2,400	2,428	28
	70,400	70,400	73,248	2,848
Interest income	1,000	4,000	6,713	2,713
Total Revenues	71,400	74,400	79,961	5,561
Expenditures				
Public works:				
Construction	5,000	2,748	0	2,748
Routine maintenance	26,660	31,088	23,517	7,571
Traffic services	4,403	4,763	2,727	2,036
Winter maintenance	10,018	9,895	7,771	2,124
Administrative and engineering	7,800	7,800	7,065	735
Contingencies	184,425	185,012	0	185,012
Total Expenditures	238,306	241,306	41,080	200,226
Excess (Deficiency) of Revenues Over Expenditures	(166,906)	(166,906)	38,881	205,787
Other Financing Sources (Uses)				
Operating transfer out	(10,000)	(10,000)	(10,000)	0
Net Change in Fund Balances	(176,906)	(176,906)	28,881	205,787
Fund Balances - Beginning of year	176,906	176,906	182,445	5,539
Fund Balances - End of year	\$0	\$0	\$211,326	\$211,326

VILLAGE OF SOUTH ROCKWOOD

Local Street Fund Statement of Revenues, Expenditures, and Fund Balance Budget to Actual Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants:				
Gas and weight tax	\$28,000	\$28,000	\$29,937	\$1,937
Local program funds	1,000	1,000	1,026	26
	29,000	29,000	30,963	1,963
Local contribution:				
Self help	0	0	55,330	55,330
Interest income	1,300	1,300	4,644	3,344
Total Revenues	30,300	30,300	90,937	60,637
Expenditures				
Public works:				
Construction	5,000	5,000	0	5,000
Routine maintenance	48,351	45,439	25,353	20,086
Traffic services	2,704	2,663	1,991	672
Winter maintenance	3,166	5,580	4,503	1,077
Administrative and engineering	2,900	2,900	2,865	35
Contingencies	120,460	120,999	0	120,999
Total Expenditures	182,581	182,581	34,712	147,869
Excess (Deficiency) of Revenues Over Expenditures	(152,281)	(152,281)	56,225	208,506
Other Financing Sources (Uses)				
Operating transfer in	15,000	15,000	15,000	0
Net Change in Fund Balances	(137,281)	(137,281)	71,225	208,506
Fund Balances - Beginning of year	137,281	137,281	135,245	(2,036)
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$206,470</u>	<u>\$206,470</u>

VILLAGE OF SOUTH ROCKWOOD

Nonmajor Governmental Funds Combining Balance Sheet June 30, 2006

	Special Revenue Fund		Total Nonmajor Governmental Funds
	Cemetery	Capital Projects	
Assets			
Cash and investments	\$221,475	\$25,895	\$247,370
Total Assets	\$221,475	\$25,895	\$247,370
Liabilities and Fund Balances			
Liabilities			
Due to other funds	\$5,077	\$0	\$5,077
Total Liabilities	5,077	0	5,077
Fund Balances			
Unreserved	216,398	25,895	242,293
Total Liabilities and Fund balances	\$221,475	\$25,895	\$247,370

VILLAGE OF SOUTH ROCKWOOD

Nonmajor Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Special Revenue Fund		Total Nonmajor Governmental Funds
	Cemetery	Capital Projects	
Revenues			
Charges for services	\$46,635	\$0	\$46,635
Interest/investment income	3,560	829	4,389
Other revenue	100	0	100
Total Revenues	50,295	829	51,124
Expenditures			
Current Operating:			
General government	36,410	0	36,410
Total Expenditures	36,410	0	36,410
Net Change in Fund Balances	13,885	829	14,714
Fund Balances - Beginning of year	202,513	25,066	227,579
Fund Balances - End of year	<u><u>\$216,398</u></u>	<u><u>\$25,895</u></u>	<u><u>\$242,293</u></u>

VILLAGE OF SOUTH ROCKWOOD

Riverside Cemetery Fund Statement of Revenues, Expenditures, and Fund Balance Budget to Actual Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Charges for services:				
Perpetual care fees	\$500	\$500	\$1,875	\$1,375
Grave opening / closing fees	6,600	6,600	18,650	12,050
Sale of lots	4,800	15,195	22,000	6,805
Monument footing fees	1,500	1,500	4,110	2,610
	13,400	23,795	46,635	22,840
Interest / investment income	700	700	3,560	2,860
Other revenue	100	100	100	0
Total Revenues	14,200	24,595	50,295	25,700
Expenditures				
Cemetery:				
Sexton	5,846	5,516	5,357	159
Grave opening / closing	10,441	14,946	13,516	1,430
Ground upkeep / maintenance	17,304	22,358	17,537	4,821
Contingencies	175,545	176,711	0	176,711
Total Expenditures	209,136	219,531	36,410	183,121
Net Change in Fund Balances	(194,936)	(194,936)	13,885	208,821
Fund Balances - Beginning of year	194,936	194,936	202,513	7,577
Fund Balances - End of year	<u>\$0</u>	<u>\$0</u>	<u>\$216,398</u>	<u>\$216,398</u>

VILLAGE OF SOUTH ROCKWOOD

Capital Projects Fund
Statement of Revenues, Expenditures, and Fund Balance
Budget to Actual
Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Interest income	\$175	\$175	\$829	\$654
Total Revenues	175	175	829	654
Expenditures				
Other	25,116	25,116	0	25,116
Total Expenditures	25,116	25,116	0	25,116
Net Change in Fund Balances	(24,941)	(24,941)	829	25,770
Fund Balances - Beginning of year	24,941	24,941	25,066	125
Fund Balances - End of year	\$0	\$0	\$25,895	\$25,895



**COOLEY HEHL
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Village Council
Village of South Rockwood
5676 Carleton-Rockwood Road
South Rockwood, Michigan 48179

Report of Comments and Recommendations

Our audit of the financial statements of the Village of South Rockwood for the fiscal year ended June 30, 2006 was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry, and confirmation, that we determine that existing internal controls, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the Village. During the course of our audit, we noted certain practices and procedures which we believe could be changed to improve existing internal controls, accounting procedures, accounting records, and other matters.

Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our audit and therefore do not encompass all matters that might result from special studies directed toward such matters.

Sewer Taps and Receivables

During the audit, we noted that the process of recording the sale of sewer taps, and the associated sewer tap receivable are areas which need improvement. Duplicate sewer tap permit numbers, out of sequence use of sewer tap permits, and incorrect posting of sewer accounts receivable were all noted during the audit. We recommend the Village begin using prenumbered sequential sewer tap permit cards. When a tap is sold, a copy of the permit should be attached to the receipt and a copy should be filed in order with other sewer card permits. The recording of payments on sewer taps receivable should be posted in the general ledger against the receivable balance, and the customer's sewer card should reflect the balance due at the end of the fiscal year. The sum of sewer card balances should reconcile with the general ledger balance. Also, when a customer makes a payment on their balance, the date, amount paid, and receipt number should be recorded on their sewer card.

Interfund Due To and Due From

The water receiving account (Water Fund) collects all payments for water, sewer, and rubbish billings. The water receiving account should then transfer to each fund their share of the collections (sewer collections = Sewer Fund and rubbish = General Fund). At the end of the fiscal year, the Water Fund should owe the Sewer and General Funds only for the June collections. Each fund's books should reflect the balance due from or due to. We noted during the audit the Water Fund owed the Sewer and General Funds for old collections, and the amount due from the Water Fund and due to the Sewer and General Funds was not accurately recorded. The old balances should be paid, and the Village needs to examine its process of recording and transferring billing collections.

Village Council
Village of South Rockwood

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We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officers and employees of the Village. We would be pleased to discuss any of these recommendations with you and to provide any assistance that you may require in their implementation.

Very truly yours,

A handwritten signature in cursive script, reading "Cody H. Wadsworth". The signature is written in black ink and is positioned above the date.

October 18, 2006